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Competing over Competition Policy

Finally, Europe is taking competition seriously, as the decision to block the merger of General Electric and Honeywell demonstrates. Competition is the basis of a dynamic market economy. Yet, as Adam Smith recognized, firms inevitably seek to restrict it: more profits can be made by creating a monopoly rather than through better products. The Microsoft case in America brought home both the variety of abusive practices and the chilling effect anti-competitive behavior can have on innovation. So government must "set the rules of the game" to maintain a fair playing field, and vibrant competition. Europe's commitment to competition comes none too soon. After a new era of vigorous anti-trust enforcement under the Clinton Administration, the Bush Administration seems to be backing off from that line. At the same time, conservative members of the US federal courts, many appointed during the Reagan era, are increasingly restricting the government's power to oversee and curtail predatory business practices. The Clinton era anti-trust team exposed and successfully prosecuted some major price fixing conspiracies that reached across international borders and cost global consumers billions of dollars. They attacked, for example,

predatory pricing by airlines, in which established airlines drove out low cost carriers not only by cutting fares, but by adding substantial capacity—at great losses; but once the low cost carriers were driven out, the big airlines raised prices and cut back on service once again. The recent spat between the United States and Europe concerning the Honeywell and GE merger brings home several points. Most importantly, it shows the virtues of strong competition in competition policy. For Europe's competition authorities picked up the ball that the Bush administration had fumbled badly. America's Secretary of the Treasury, perhaps the senior economic official in the world's largest economy, is often seen as the semi-official spokesperson for global capitalism. In his old capacity as boss of Alcoa, Treasury Secretary Paul O'Neill did what any good captain of industry would do when faced with falling prices: he turned to government for a hidden bail-out in the form of a *global* aluminum cartel. Today his government public relations people, indeed, tout that cartel as one of his great successes. What is good for Alcoa, however, is not necessarily good for America or the world. Higher aluminum prices were passed on in the price of every coke and beer can and every new airplane. So what makes for good profits—creating global monopolies—does not make for good public policy. Now the Bush Administration is seeking to create a similar cartel in steel. While Secretary O'Neill may preach that the problems of the world arise not from too much but from too little of a market economy, trying to create a new global cartel in steel only makes sense for big steel businesses. It will earn him kudos from those quarters, but hardly earns him credentials for speaking about what truly makes a market economy work. It certainly does not given him the right to say that the European Union's recent decision blocking the merger of Honeywell and General Electric was "off the wall." The suggestion that the EU's decision somehow intruded on American sovereignty was another demonstration of the extent to which corporate interests have grabbed the economic agenda. Every government has the right – indeed, the obligation – to ensure that there is competition within their borders. The European Union was simply doing what it should do, following well established procedures. The fact that it did not let corporate influences dominate its decision is testimony to the leadership and integrity of Mario Monti and Romano Prodi and the integrity and commitment to competition in Europe. A century ago America created its competition laws because of the concern that monopoly interests would seek to dominate markets by "capturing" government. The ready profits from monopoly can buy influence in high places, if not through bribes, then through big campaign contributions. This is why those injured by monopoly were given, under America's

early anti-trust laws, the right to sue, receiving treble damages if victorious. It was an early piece of legislation directly empowering people, and reflected a healthy, and deserved, skepticism about the ability of government to address these concerns. Today, with globalization, we have another check: independent competition authorities check each other. One of the most important roles for government is creating the "rules of the game," which enable a market economy to work. Among the most important rules of the game are those about competition. Nowadays, what typically tries to pass as a "free market economy" is a *corporatist* economy in which government uses its powers to advance the interests of business, often at the expense of consumers. Many developing and transition economies, indeed, were told: open up your economy to international trade and that will suffice to ensure competition. That advice was misguided. Trade liberalization with monopoly importers only served to transfer some government revenues into the pockets of the monopolists. In Russia, Secretary O'Neill's international aluminum cartel resulted in a blood bath as rival groups fought over who got the monopoly profits, and out of that turmoil a single monopolist emerged. Monopoly interests have bought and corrupted governments throughout the world. Strong competition policy is not just a luxury to be enjoyed by rich countries, but a real necessity for those striving to create democratic market economies.

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